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# Improvement of customs statistics in Georgia

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## Abstract

**Purpose of the article:** Purpose of the present article is to identify drawbacks in the field of customs statistics of Georgia and to formulate concrete steps for their correction.

**Methodology/methods:** The methods of induction, deduction, analysis, synthesis, statistical observation and grouping have been used in the research process. The aim of the scientific work is to determine the principles for improving the statistical registration of commodity at the customs in Georgia.

**Results:** Countries of origin are not yet completely reflected in the cargo-customs declaration at the Georgian customs; the field “means of transport at the border” in the cargo-customs declaration is not filled in; data on estimated market value of the means of transport in the databases of Service Agency of the Ministry of Internal Affairs of Georgia is not complete; detailed coding of imported vehicles is carried out incorrectly; the simplified customs declarations are not completely filled in with reference to countries, 11-digit item coding and value. In terms of registration, certain problems are caused by the fact that a sender and a country of final destination are not always filled out in the declaration. Problems exist in producing foreign trade price indices, the issue being that the information on foreign trade statistics is classified according to the Harmonized Commodity Description and Coding System while price indices are calculated according to the classification of types of economic activity on the 4-digit level; in filling in declarations there are frequent errors related to registration of commodity code, weight and additional units of measurement.

**Conclusions:** Empirical data related to production of Foreign Trade Statistics are characterized with certain errors, as a part of foreign trade operations remains unregistered. It means that registered value of exports and imports does not fully correspond to the value of actual flows.

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## 1. Introduction

Proper production of customs statistics has a great importance for government regulation of economic processes in the country. The customs statistics are in very close connection with the foreign trade statistics, which plays a major role in establishing effective external economic and customs policies of the country. In particular, monetary

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and fiscal policy of the country depends on the data of foreign trade balance and vice versa. For instance, the more the national currency appreciates, the more the imports increase, while the larger is the national currency depreciation, the higher is the increase in exports. In addition, the amount of foreign currency reserves should be in a certain proportion to the volume of imports, in order to maintain an effective monetary policy (Uridia and Rukhaia, 2009).

One of the main principles of Georgia's economic policy is liberal foreign trade, which implies simplified foreign trade regime and customs procedures, low import taxes and minimal non-tariff regulations. It has been achieved by the Georgian government through tariff policy, as well as through the reforms of technical regulations.

Currently Georgia is the beneficiary of the generalized system of preferences (GSP) of the following countries: European Union, the USA, Japan, Canada, Switzerland and Norway. The main essence of GSP is to set low base tariff rates on products imported from beneficiary countries, which simplifies entry of exports from developing countries into the developed markets (Abesadze O., 2015a). In addition, according to the Georgian legislation, exports and re-exports from Georgia are exempt from taxes. Due to the fact that since 1 September, 1997 Georgia uses value-added tax by destination country, exports from Georgia are exempt from VAT. According to the Tax Code of Georgia, rates of value-added tax and excise tax are equal for local and imported products.

According to the Law of Georgia on Licenses and Permits, non-tariff restrictions of any kind (licensing, quotas, prohibitions, etc.) are not envisaged in foreign trade, except for the cases when it is necessary for health, security and environment protection.

In the conditions of the above-mentioned liberal foreign trade policies, today when the goals of introducing advanced European practices and achieving European Integration represent Georgia's main priorities (Abesadze, Nino 2014), the capacity building of national statistical system in accordance with international standards is especially urgent. This, surely, means the perfection of the activity of the National Statistics Office and its maximum harmonization to the international standards (Abesadze, Nino 2015). However today, when European economic integration of Georgia is underway, problems of statistical registration in the customs become very obvious. Solutions to the above-mentioned problems create new challenges for the National Statistics Office.

Theoretical basis of the research represents the articles of Georgian and foreign scientist-economists concerning the above-mentioned topic. Among them are: V. Papava, G. Ghaghanidze, G. Uridia, N. Terashvili, L. Korganashvili, T. Kandashvili, N. Aslamazishvili, M. Khmaladze, N. Paresashvili, N. Abesadze, L. Dzebisauri, O. Abesadze and others. Their articles reflect economic aspects of the ongoing processes at the customs, challenges of Georgia's customs statistics, problems, etc.

The purpose of the present article is to identify drawbacks in the field of customs statistics of Georgia and to formulate concrete steps for their correction.

Methodology/methods – in the research process the methods of induction, deduction, analysis, synthesis, statistical observation and grouping were used in order to acquire, process, analyse the empirical materials and draw reasoned conclusions. The errors of information support of customs statistics were revealed on the basis of current, periodic and one-time statistical observations. As a result of typological, structural and analytical grouping, the problems were identified.

Scientific aim - the aim of the scientific article is to improve the methodological basis for commodity registration as a result of revealed shortcomings in the Georgian customs system and, consequently, to determine the principles for improving statistical registration.

## 2. Results

In terms of improving Customs Statistics and harmonization with the EU standards main problems of statistical registration currently faced by the National Statistics Office of Georgia are obvious.

First of all, it should be mentioned that the field of a country of origin is not appropriately filled in the customs declaration. In the foreign trade databases a trading country is mainly recorded, but not a country of origin. For example, in the database of June 2015, a country of origin is not recorded in 61% of declarations, while according to the new methodological recommendations of the UN, it is mandatory to register country of origin.

On the other hand, it is noteworthy that one of the problems of foreign trade registration is related to filling the field of "means of transport at the border" in the cargo-customs declaration. In regard to the UN recommendations, producing international merchandise trade statistics is necessary in line with the breakdown by means of transport.

This information was available until 2011, but after establishing a time limit on filling the declaration, completion of this field became voluntary, which resulted in foreign trade statistics data by means of transport not being produced since 2011 (Abesadze O., 2015b).

Third, in the databases of the Service Agency of the Ministry of Internal Affairs, imported vehicles are valued at approximate market values instead of exact ones; besides, there are cases of incorrect valuation of goods that are identified and corrected by the National Statistics Office of Georgia. It gives rise to discrepancies, as in the databases received from the Service Agency on a monthly basis approximate market values are recorded for imported, exported and re-exported motor-vehicles. This is the reason of differences between the databases of Geostat and the Service Agency of the Ministry of Internal Affairs.

As a continuation of this issue, there are examples of incorrectly assigned codes for imported means of transport in the database of the Service Agency. This is due to errors in coding of new and used vehicles, while in some declarations codes of goods are not recorded at all. Besides, in the databases of the Service Agency country codes are not always assigned for exports and re-exports (for example, from 2013 to 2015 this indicator decreased from 11.0% to 0.01%). Completion of this field is necessary for producing foreign trade statistics with the breakdown by countries.

It should be noted that in the databases of the Service Agency the variables such as importing country, import date and import price of vehicles in the case of direct re-export remain unknown, since import declarations are not filled altogether. It is important and necessary to record import country, date and value on declared vehicles with direct re-export regime for statistical purposes. Otherwise, there can be a situation when an exported vehicle is not recorded in the country's imports. As a result, the number of exported vehicles may exceed the import volume that is incorrect in terms of statistics and leads to imbalances. Geostat corrects errors, but it is desirable to formalize detailed registration of relevant import flows at the primary source. Gabidzashvili, B., & Kukhianidze-Akhvlediani, N. (2002).

One of the most important problems is to complete the simplified customs declaration (form № 4) with reference to countries, 11-digit item codes and value. The simplified customs declaration (form № 4) does not provide records of a country of origin, commodity codes and vehicle registration at the border. Commodity description is not sufficiently detailed to make exact coding possible according to the commodity nomenclature. Commodity value is not always recorded in the declarations. The aim of using a simplified customs declaration is to reduce time spent on customs processing operations. It causes problems in terms of comprehensive registration of exports. It is primarily agricultural products that are exported in the neighboring countries using this method and thus their value is practically not recorded in the country's exports.

In order to improve registration of foreign trade statistics it is important for certain operations to set an appropriate regime for moving between warehouses to avoid double counting (except for the transfer of ownership). The necessity of such a regime also arises when moving goods from one warehouse to another. This may include such good which were imported under the temporary regime but subsequently moved to a warehouse.

The registration of banknotes at the customs has to be regulated by the National Bank of Georgia. The relevant commodity code is envisaged in the Harmonized Commodity Description and Coding System. It is necessary to declare banknotes with the proper commodity code.

For the purposes of improving registration and foreign trade databases, it is necessary to identify a type of currency: national or foreign. Only based on this fact we can determine whether or not mentioned cargo should be recorded in trade statistics. The issue is that due to the request from the National Bank of Georgia that was agreed upon, the export and import of banknotes has become "top secret", being declared as "special purpose cargo" (Dzebisauri, 2012).

In terms of registration certain problems are caused by the fact that in the Foreign Trade database some declarations do not include information on a sender and a final destination country (this is related to both warehouse and standard regimes). According to the legislation, it is mandatory to fill in this field, thus after with additional efforts made by the Revenue Service the quality of foreign trade databases will be significantly improved.

There are some drawbacks in registration of diplomatic goods (in certain cases humanitarian goods are declared with this code). According to the international methodology, while producing Foreign Trade Statistics diplomatic goods must be excluded and humanitarian goods need to be included, thus it is necessary to determine correctly these two operations.

As a rule, in case of goods processing, commodities have to be returned to the country from which the raw materials and half-finished products were imported/exported. This is not often indicated in the declarations: it may happen that goods (raw materials) imported from one country will be subsequently exported to another country. In line with the condition of actual transaction, it is possible that processed goods are delivered to a third country. According to the UN international methodology, the processing regime has to be included in Foreign Trade Statistics and the repair operations – in the Statistics of International Trade in Services. At present the issue of splitting processing and repair operations is problematic.

In the case of export of vehicles a mismatch between exports and imports is caused by filling a direct re-export declaration during grace period, resulting in mentioned vehicles not being recorded in imports (while importing a vehicle a 60-day grace period is allowed before customs clearance). Such operations are systematically observed and adjusted by the Geostat, however, small gaps still remains.

In statistical recording of export-import operations one problematic issue is incorrectly assigned regimes. When commodities are under import regime they obtain the status of Georgian products, which implies that export of such commodities is recorded as export instead of re-export. The problem of recording a temporary regime has to be solved, it should be improved by the customs to the extent possible; sometimes import and export of goods is recorded for the same company, which is re-export, but declarations show the export regime. Sometimes a declaration may contain the description “subject to return”, which means that the temporary regime should be assigned, but in certain cases this does not happen. The field for measurement units does not always contain data on additional units of measurement, as defined the national nomenclature in line with HS 2012, the examples of such units being “absolute alcohol” for spirituous beverages, “number of items” for cigarettes. For taxation purposes, namely for determining an excise tax on cigarettes and alcoholic beverages, the customs registers cigarettes only in packs, and beverages – only in liters. Through the automated system of the custom database “ASYCUDA” the taxable amount is calculated automatically.

The special cargo-customs declarations contained the information to be written in an introduction, which had not been reflected in international merchandise trade statistics till 2015. The mentioned declarations were established only in the time of import operations by Georgian Post. Apart from the fact, that the mandatory parameters for producing international trade statistics were not completely reflected in the declarations, the solution of the problem was hindered by the failure to receive the information from the relevant source. The Revenue Service of the Ministry of Finance, which is one of the major sources for producing international merchandise trade statistics, also did not have an access to the above-mentioned information.

The special cargo-customs declaration is one of the most important problems and the essential error of statistical information and has to be noteworthy, was being recorded from 2011 to November 2014 in international trade statistics, in the part of imports. Georgian Post filled in the above-mentioned declarations in the respective years. Despite many requests and official demands, National Statistics Office could not get the relevant information from Georgian Post, which was crucial for producing high quality international merchandise trade statistics. Since the end of 2014 declaration function of above-mentioned commodities has been transferred to the Revenue Service. After that, this kind of products are declared on the basis of conventional cargo-custom declaration, it gives an opportunity to receive information about Foreign Trade for producing relevant statistics in line with international standards. In special cargo-custom declaration exists following drawbacks: commodities codes in many cases were incorrectly (product description was not in accordance with the classification codes) or detailed only on 4-digit level. On the bases of product description the correct coding of commodities was made on 11-digit level; In many cases importing countries were not recorded. Determination of countries was held in accordance with the currencies in which the operations were carried out. In 2015 special cargo-custom declaration was adopted and the National Statistics Office made the correction and processing of information as well as 2011–2014 update import data.

Problems exist in the case of producing foreign trade price indices. The point is that the information about foreign trade statistics is classified according to the Harmonized Commodity Description and Coding System (HS 2012), while price indices are calculated according to the classification of types of economic activity (NACE), which does not allow for the calculation of real growth in foreign trade.

### 3. Discussion

Today is very actual in Georgia Custom Statistics issues. The systematic improvement of register is underway, which leads the approximation with International standards.

### 4. Conclusion

While producing Foreign Trade Statistics empirical data are characterized by certain errors, as a part of foreign trade operations remains unregistered. It means that registered value of exports and imports does not fully correspond to the value of actual flows. In particular:

- In cargo-customs declarations the country of origin is not recorded completely; In the Foreign Trade statistics databases a trading country is mainly recorded but not a country of origin.
- The field “means of transport at the border” in customs declarations is not filled in appropriately. The reason is that since 2011 after time restrictions on filling the declaration have been established, filling the mentioned field became voluntary. This lead to the Foreign Trade data not being produced with the breakdown by means of transport.
- In the database of the MIA Service Agency the exact market value of imported cars is not referenced. It gives rise to some discrepancies, because the databases contain approximate market value of imported, exported and re-exported vehicles.
- Coding of imported vehicles is carried out incorrectly; In the case of export and re-export country codes are not always assigned by the Service Agency. Filling above mentioned fields is necessary for producing Foreign Trade Statistics with the breakdown by countries.
- Filling a simplified customs declaration is carried out incompletely with regard to country, 11-digit level commodity code and commodity value fields;
- In terms of registration certain problems are caused by the fact that in the monthly database some declarations do not include information about sender and final destination country;
- The issues of declaration of banknotes should be regulated by the National Bank of Georgia;
- There are certain errors in declaration of diplomatic goods under appropriate codes.

Conclusion, in terms of drawbacks in import data existed in 2011–2014 were caused by the fact that receiving data from the Georgian Post about special cargo-custom was problematic. It has been eradicated as the right to declare appropriate cargo consigned to the LEPL -Revenue Service under the Ministry of Finance.

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